CalPERS

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April 18, 2006

AGENDA ITEM 12

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Long-Term Care Program 2006 Rates

II. PROGRAM: Health Program

III. RECOMMENDATION: Staff recommends that the Board approve 2006 rates for the Long-Term Care Program that include appropriate margins for moderately adverse conditions without any subsidization across benefit designs.

IV. ANALYSIS:

At the March 14, 2006, meeting of the Health Benefits Committee, the Committee approved in concept that the 2006 rates for the Long-Term Care Program (Program) should reflect an appropriate margin for moderately adverse conditions. The American Society of Actuaries (ASA) has defined moderately adverse conditions for Long-Term Care policies to mean conditions that include one or more unfavorable, but not extreme, events and, events that have a reasonable probability of occurring during the estimation or projection period. Typically, that means that the rates would include an additional 10–20% margin above break-even to cover deviations from assumptions.

Rates for the Program have traditionally been configured on the basis of “best estimates” valuation with a break-even approach; a specific reserve was not included. The expectation was that reserves would accrue to the Program as a result of superior investment performance. The proposed change in approaching rates will move the Program in the direction of insurance industry and ASA standards.

The Long-Term Care Advisory Committee (Advisory Committee) met on April 4, 2006, and recommended that the margin for the 2006 rates be limited to 10%. In addition, the Advisory Committee recommended that investment returns expectations be limited to 7% and that there would be no subsidization of rates across plan designs. The Program’s consulting actuary, United Health Actuarial Services, Inc., concurred with this approach and has prepared an overview of rates for the Program's 2006 application period based on these considerations. The following figures show the proposed 2006 rates in terms of the required increase over the 2005 Program rates by plan design. The specific premium rates by age bands will be determined in collaboration with the Advisory Committee if the Board approves the proposed aggregate premium rate increases contained in the table below.

BENEFIT PERIOD/ INFLATION COMBINATION	PROPOSED ADJUSTMENT
1 Year w/Inflation	+7.9 %
2 Year w/Inflation	+17.1 %
3 Year w/o Inflation	−1.0 %
3 Year w/Inflation	+15.8 %
6 Year w/o Inflation	+ 6.8%
6 year w/Inflation	+ 34.8 %
Lifetime w/o Inflation	-12.7 %
Lifetime w/Inflation	+4.2 %
Aggregate Adjustment	+10.4 %

The proposed 2006 rating methodology represents the first step in the mitigation process designed to eliminate the deficit position for the Program as identified in the 2005 valuation report. Staff will continue to meet with the Advisory Committee to address adjustments to the 2005 rates and the 2004 and previous rates.

Recommendations

Staff recommends that the Board approve the proposed 2006 Program rates as identified in the above table. Staff will continue to meet with the Advisory Committee to determine the rates for specific age groups. In addition, staff will continue to meet with the Advisory Committee to address adjustments to the 2005 rates and the 2004 and previous rates.

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